



# ADMINISTRATIVE OFFICE OF THE COURTS

## FINANCE DIVISION

### TRIAL COURT FINANCIAL POLICIES AND PROCEDURES MANUAL 7th EDITION

#### Policy No., FIN 1.03, Internal Controls

#### EXECUTIVE SUMMARY OF UPDATE

##### POLICY ISSUE(S)

There was a significant update of this section of the FIN Manual to expand and emphasize a high level discussion that would cover concepts from different internal control statutes and authoritative references such as the Financial Integrity and State Manager's Accountability Act (FISMA), the Sarbanes-Oxley Act of 2002, and the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, approximately 26 pages were deleted that dealt with control requirements detail that were already in other sections of the manual.

##### Significant Revisions

1. Section 2.0 changed to emphasize that the policy will provide a broad based understanding of internal controls and that a trial court use the framework discussed as a reference when establishing organization plans, implementing operational and financial procedures, and controlling financial records.
2. Section 3.0-Minor rewording to change accounting controls to financial controls in Paragraph 1. Minor re-wording to add administrative and operational controls to financial controls as additional areas to minimize risk.
3. Section 6.1-This section was changed from 'purpose' to 'concepts' and expanded to discuss important internal control concepts such as:
  - Internal control is a process that is affected by people and is not just policy and procedure manuals, etc.
  - Internal controls provide reasonable assurance not absolute assurance.
  - Defining preventative and detective controls and why they are important.

4. Section 6.2-The lead in paragraph was significantly expanded to discuss not only protection of assets and reputation but to discuss potential negative public perception (publicity risk), and exposure to operational and financial risks. There is an opening statement regarding the trial court maintaining 'the highest standard of ethics and level of integrity to inspire public confidence and trust in the court system.' The examples from version six were left intact.
5. Section 6.3-Eliminated pages 6 through 32 in 6th Edition which discussed detailed objectives and requirements that generally match sections of the manual. The detail was repeated from each section of the manual.

Changed the lead in part of this section to emphasize the five interrelated components of an effective internal control system and provide similar high level examples as outlined in FISMA. The five components with some examples are:

1. Control Environment. Example: Organization chart that provides for segregation of duties.
  2. Risk Assessment. Example: Operational and financial reporting objectives (strategic and operational plans and a budget).
  3. Control Activities. Examples: Expenditure authorization matrices, limitation of access to fiscal and operational records to appropriate identified staff, and local policies and procedures.
  4. Information and Communication Systems. Examples: Effective and timely obtaining of information for decision purposes and adequate and effective communication.
  5. Monitoring. Examples: Appropriate supervision and review of internal control systems.
6. Section 6.4-Previously this was a small part in the prior section. The examples of an effective system of internal review were left as paragraph two and only a minor additional to the first paragraph of 'on a timely basis as required' was made.

FISMA and the other literature emphasize this as 'management controls' to monitor personnel and the performance of the entity.